

Construction

Building To Last

Highlights

- The Malaysian construction sector is poised to outperform in 2026, with an estimated earnings growth of 15-18% in 2026 underpinned by accelerated progress billing and improved profit margins.
- The sector upcycle is well supported by industry statistics such as rising orderbook replenishments, value of construction work completed, and strong tenderbook from both public infrastructure and private job flows (DC-related).
- Maintain OVERWEIGHT; top picks are Gamuda, Suncon and Kerjaya.

Analysis

- **Crystallising earnings visibility throughout 1H26, backed by elevated orderbook replenishments.** In 1H26, we expect the Malaysian construction sector to continue delivering sequentially stronger earnings, underpinned by accelerated progress billing and improved profit margins. Our optimistic view on the sector is further supported by a huge pipeline of domestic infrastructure projects as well as an upswing in project rollouts from the private sector, particularly within the DC segments. We anticipate companies under our coverage delivering an average earnings growth of 15-18% in 2026.
- **Positive read from industry statistics reiterating sectoral upcycle.** According to the Department of Statistics Malaysia, the quarterly value of construction work completed in 3Q25 continues to trend up to RM45.4b (+10.6% yoy). Notably, this represents the 16th qoq improvement in a row since the resumption of construction activities in 3Q21. Furthermore, 9M25 construction work done stands at RM132.2b, improving 13.1% yoy and surpassing pre-COVID-19 levels by 22%. The private sector remains as the larger contributor with 65% of total construction works done in 3Q25. 1H26 construction activities will largely remain active, well supported by resilient contract awards of over RM202b in 2025 from both public and private sectors.
- **Valuations remain palatable; potential re-rating from domestic liquidity and capital management upside.** While the construction index retraced 9-10% from 2025's peak, current valuations of the companies under our coverage (average 2026F PE of 17x) remains palatable given multi-year high orderbooks and re-rating opportunities stemming from robust domestic liquidity. More importantly, the sector's balance sheet charted an improving trend over the last two years following better earnings and cashflow conversion cycle. Adjacent with yoy earnings growth, we anticipate about 3-7% dividend yield for companies under our coverage, with room for better capital management.

Peer Comparison

Company	Ticker	Rec	Share Price 26 Sep 25 (RM)	Target Price (RM)	Market Cap (US\$m)	PE			P/B			2026F Div Yield (%)
						FY25F (x)	FY26F (x)	FY27F (x)	FY25F (x)	FY26F (x)	FY27F (x)	
Binastra Corporation	BNASTRA MK	BUY	2.11	2.68	567.4	25.5	16.9	13.2	10.1	7.1	5.3	2.8
Gamuda	GAM MK	BUY	4.87	6.21	7,081.7	27.5	20.5	17.0	2.2	2.2	2.1	2.6
IJM Corporation	IJM MK	HOLD	2.74	2.72	2366.4	19.0	21.2	18.5	1	1	0.9	2.8
Kerjaya Prospek Group	KPG MK	BUY	2.71	3.30	839.6	14.9	12.7	12.0	2.8	2.6	2.3	4.4
Malaysian Resources Corporation	MRC MK	HOLD	0.395	0.46	434.8	56.4	17.9	16.5	0.4	0.4	0.4	2.5
Sunway Construction Group	SCGB MK	BUY	6.03	6.66	1963.3	21.9	19.9	19.4	10.8	8.9	7.5	7.2
WCT Holdings	WCT MK	HOLD	0.6	0.72	230.5	16.6	12.4	12.7	0.3	0.3	0.3	5.1

Sources: Bloomberg, UOB Kay Hian

OVERWEIGHT (Maintained)

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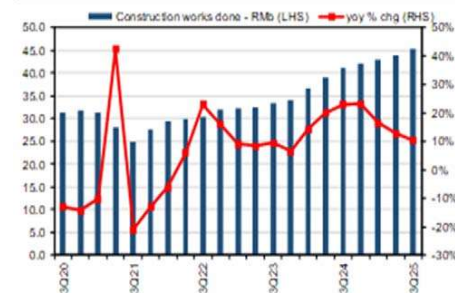
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Construction Index Vs FBMKLCI



Source: UOB Kay Hian

Value of construction works done (as of 3Q25)



Source: Department of Statistics Malaysia, UOB Kay Hian

Sector Top Picks

Company	TP	Upside
Gamuda	6.21	27.5
Sunway Construction	6.66	10.4
Kerjaya Prospek Group	3.30	21.8

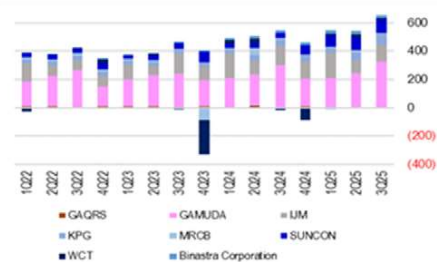
Source: UOB Kay Hian

- Local infrastructure job flows to remain elevated in 1H26...** Local contract awards had been resilient despite being lower yoy in 2025, with total value awarded reaching about RM24.8b (-44% yoy). Notably, more public infrastructure projects have been awarded in 2025, which include: a) Penang Light Rail Transit (LRT) Segment 1, b) reinstatement of LRT 3, and c) flood mitigation projects across several states. Moving into 1H26, we anticipate ample opportunities for contractors as the government rolls out domestic infrastructure projects such as the remaining package for Penang LRT, Johor's Automated Rapid Transit (ART) system, and more water-related infrastructure projects in the pipeline.
- ...supported by higher development expenditure announced in Budget 2026.** A total of RM131.8b (2025: RM120b) in public development expenditure was allocated by the government to the construction sector in 2026, which comprises RM81b in development expenditure, RM10b in Public-Private investments, RM10.8b in Federal Statutory Bodies and Minister of Finance Incorporated (MKD) companies' investments, and RM30b in direct domestic investment from Government-Linked Investment Companies (GLICs).
- DC pipelines powering private job flows, with tenderbook opportunities aplenty.** Notably, Tenaga Nasional signed 11 electricity supply agreements (ESAs) in 9M25 for DC projects in Malaysia with a combined electricity demand of around 1,100MW. This roughly translates into 750-780MW of DC capacity (potential RM15b-16b contract value based on RM20m per MW estimates). We understand that potential DC tenderbooks in Malaysia for the coming 2-3 years are estimated at RM30b and can fuel multi-year earnings growth for the few local contractors with DC exposure, such as Gamuda, Sunway Construction, IJM Corp, and Binastra.
- Healthy DC contracts awarded in 2025 to fuel earnings growth through 2026-27.** Within our coverage, IJM Corp has emerged as the biggest winner in 2025 by securing three DC projects collectively worth RM3.5b (RM1.4b DC contract for fast-track delivery in Johor and two contracts worth RM1.2b and RM874m related to a hyperscale DC in Elmina, Shah Alam). Meanwhile, Sunway Construction has also secured three DC contracts worth RM1.94b (RM386m DC site infrastructure works from a US MNC client, RM393m DC contract for K2 Strategic Infrastructure (K2) and the conversion of two RM1.155b early contractor involvement (ECI) DC packages in Klang Valley), while Gamuda has secured a RM1b DC contract (Negeri Sembilan land for Pearl Computing's DC development). Binastra has also secured RM438.9m in DC contracts from two projects for the AIMS DC project in Cyberjaya.
- Manageable impacts from building material cost hike due to overloading issues.** The Ministry of Transport (MOT) has intensified its campaign against overloaded commercial vehicles since Oct 25, which resulted in a sharp cost base rise for the bulk cargo transporters and selective building material costs (especially cement and premix concrete). Nevertheless, our channel checks revealed that the impacts towards larger scale contractors are relatively manageable due to: a) variation-of-price (VOP) clauses which allow part of the additional costs to be passed on to end clients, b) building material costs for some existing projects were fixed when projects commenced, and c) big sites may have their own plants for building material storages.

Valuation/Recommendation

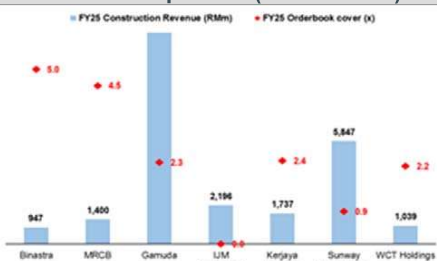
- Maintain OVERWEIGHT on the Malaysian construction sector.** Sector outlook and earnings growth visibility remain sanguine, with a multi-year sector upcycle anchored by the progressive rollout of selective mega projects and better private job flows throughout 2025-2027 remain intact.
- Our sector top picks** are Gamuda (BUY/Target: RM6.21), Suncon (Upgrade to BUY/Target: RM6.66) and Kerjaya (BUY/Target: RM3.30). Ratings and target prices of other stocks under our coverage are in the RHS table.

Construction Firms' Earnings Trend



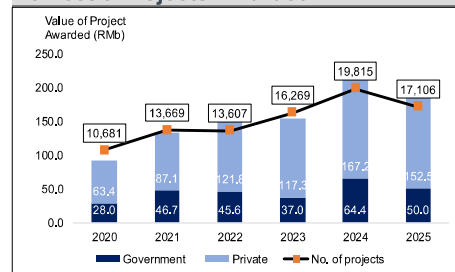
Source: Respective companies, UOB Kay Hian

Orderbook Comparison (as of Nov 25)



Source: Respective companies, UOB Kay Hian

Domestic Projects Awarded



Source: Construction Industry Development Board, UOB Kay Hian

Valuations And Target Price

Company	Ratings	Implied Valuations	Implied TP (RM)
Binastra	BUY	16.8x FY27F PE (mean)	2.68
Gamuda	BUY	22x FY27F PE (+1.5SD above mean)	6.21
Sunway Construction	BUY	22x 2026F PE (+1SD above mean)	6.66
IJM Corp	HOLD	20.8x FY26F PE (+0.25SD above mean)	2.72
Kerjaya Prospek Group	BUY	17x 2026F PE (+1SD above mean)	3.30
WCT	HOLD	14.3x 2026F PE (mean)	0.72
Malaysian Resources	HOLD	21x 2026F PE (-1SD below mean)	0.46

Source: UOB Kay Hian

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